



OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

400 7th Street, S.W., Washington DC 20024

September 5, 2014

Mr. Jeffrey E. Schanz
Inspector General
Legal Services Corporation
3333 K Street NW
Third Floor
Washington, DC 20007-3558

Re: System Review Report

Dear Mr. Schanz:

We have reviewed the system of quality control for the audit organization of the Legal Services Corporation Office of Inspector General (LSC OIG) in effect for the peer review period ended March 31, 2014. A system of quality control encompasses LSC OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to *Government Auditing Standards (Standards)*, which describe the elements of quality control. LSC OIG is responsible for designing a system of quality control and complying with it to provide LSC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and LSC OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed LSC OIG personnel and obtained an understanding of the nature of the LSC OIG organization and the design of LSC OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with LSC OIG's system of quality control. The engagements selected represented a reasonable cross-section of LSC OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with LSC OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for LSC OIG's audit organization. In addition, we tested compliance with LSC OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of LSC OIG's policies and procedures on selected engagements. Our review was

based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance.

There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to a future period is subject to the risk that the system of quality control may be inadequate due to changes in conditions, or because the degree of noncompliance with the policies and procedures may deteriorate.

As background, LSC OIG's audit organization experienced several changes during the peer review period of April 1, 2011, through March 31, 2014. Most significantly, the organization transitioned from hard copy to electronic work papers. During the peer review period, LSC OIG also hired a Director of Audit Operations with responsibility for the quality assurance program, among other duties. As another example of its changing environment, LSC OIG's audit organization revised its policies and procedures in July 2013. The audit organization also experienced leadership changes. All of these are changes requiring that: an organization ensure policies and procedures are documented, current, and complete; intended practices are consistently applied; and compliance with both *Standards* and internal policies and procedures are monitored as part of the system of quality control.

In our opinion, except for the deficiencies described below, the system of quality control for the audit organization of LSC OIG in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide LSC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. LSC OIG has received a peer review rating of *pass with deficiencies*. As is customary, we have issued a letter also dated September 5, 2014, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

Within the scope of our review (see Enclosure 1), we identified two deficiencies in addition to one other issue that did not affect our ultimate opinion on LSC OIG's system of quality controls.

1. Deficiency – Reports Included Unsupported Statements About Assessing the Reliability of Computer-Processed Data

Both of the audits examined included unsupported statements in the final reports concerning assessments of the reliability of computer-processed data. LSC OIG's published reports on *Selected Internal Controls: Land of Lincoln Legal Assistance Foundation* (AU-14-01, issued March 24, 2014) and *Selected Internal Controls: Central Virginia Legal Aid Society* (AU-13-07, issued September 30, 2013) contain the following statements in the "Scope and Methodology" sections: "We assessed the reliability of computer generated data provided by the grantee by reviewing source documentation for the entries selected for review. We determined that the data were sufficiently reliable for the purposes of this report." *Standards* state auditors should assess the sufficiency and appropriateness of computer-processed information. Our system review, however, did not

identify any evidence that such an assessment was conducted to support these statements in the report. Also, LSC OIG staff could not confirm such an assessment was performed.

Standards state that an auditor may use accuracy as a quality element when developing and writing an audit report. According to *Standards*, an accurate report is supported by sufficient, appropriate evidence and key facts, figures, and findings that are traceable to audit evidence. While information in the “Scope and Methodology” is not part of the findings in the body of the report, it represents the auditor’s approach for addressing the audit objective. *Standards* state that report users need the scope and methodology description to understand, among other things, the nature and extent of work performed and any significant limitations. Accurate statements about the methodology, and the extent to which computer-processed data were assessed and relied upon, is important for report users to understand the work performed to develop the report findings and conclusions.

In addition to *Standards*’ report quality measures, LSC OIG has control measures in place to ensure the quality and accuracy of the overall audit. First, LSC OIG developed an *Auditing Standards Certification and Quality Control Checklist* as part of its quality assurance program to certify that the audit was performed in accordance with *Standards* and in conformity with LSC OIG policies. The checklist step regarding the reliability of data from computer-based systems was checked off as “not applicable” for the *Selected Internal Controls: Land of Lincoln Legal Assistance Foundation* audit, and that step was left blank for the *Selected Internal Controls: Central Virginia Legal Aid Society* audit. There was also no work paper index in the “Reference & Comment” section for this checklist step, and we did not identify a work paper to support both audit reports’ statements that the auditors assessed computer-processed data. Yet, the checklists were signed by the auditors-in-charge and the team leaders.

Second, as part of LSC OIG’s quality control measures outlined in its procedures, audit reports are reviewed by an Independent Referencing Reviewer (IRR) prior to issuance of the final report. According to LSC OIG’s policy manual, when an IRR signs the *Independent Referencer Review Worksheet*, the reviewer is certifying that the audit is technically correct and supported by adequate and compelling evidence. Further, the procedures manual states: “The IRR should start the actual referencing process by first verifying the facts in the Introduction and in the Objectives, Scope, and Methodology sections, which should be cross-indexed to appropriate audit documentation.” In both audits, these statements were neither cross-indexed nor referenced to any supporting work paper in the draft and final reports reviewed by the IRR. However, the IRR signed the worksheet, allowing unsupported statements to remain in the issued audit reports.

For example, the *Selected Internal Controls: Land of Lincoln Legal Assistance Foundation* audit report identified deficiencies with the grantee’s accounting system, including system access that could allow unauthorized changes or deletions to transactions. According to the report’s “Scope and Methodology” section, the auditors tested expenditures. If the accounting system had inadequate controls to prevent unauthorized changes or deletions and the reliability of that data was not assessed,

there may have been limited assurance that the total population of transactions was complete or accurate, which may have impacted the soundness of the sample selected and the conclusions reached.

While the audit procedures manual refers personnel to the Government Accountability Office's guidance on assessing the reliability of computer-processed data, feedback obtained during our fieldwork interviews indicated that further training could be used in this area.

Failure to ensure that there is adequate support for the findings and conclusions included in issued reports could result in errors requiring notification to users of the reports. Per *Standards*, if auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organization requiring the audit, and other known users, so they do not continue to rely on the findings or conclusions that were not supported. Depending on the significance of the computer-processed data to the findings and/or conclusions, the lack of evidence that the computer-processed data were sufficiently reliable could affect the reported findings and/or conclusions.

Recommendation 1 – LSC OIG should train its staff on assessing the reliability of computer-processed data.

View of Responsible Official. Agree. LSC OIG stated that the recommendation is not addressed to the actual condition identified in the peer review report because it presumes that no assessment was done, whereas the finding speaks to documentation of an assessment. Nevertheless, LSC OIG will conduct training by December 31, 2014, with the staff to ensure that the reliability of computer-processed data is properly analyzed and documented to support conclusions about that data.

Evaluation of Management Comments. We accept the proposed action as meeting the intent of the recommendation. We consider documentation to be part of performing the assessment. *Standards* section 6.79 states that auditors must prepare audit documentation related to planning, conducting, and reporting for each audit in sufficient detail to enable an experienced auditor, with no prior connection to the audit, to understand the procedures performed, evidence obtained and its source, as well as the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. Therefore, we maintain that training staff on documentation is an integral part of ensuring they can adequately assess the reliability of computer-processed data.

Recommendation 2 – LSC OIG should implement sufficient controls so its personnel respond to questions about the reliability of computer-processed data on the *Auditing Standards Certification and Quality Control Checklist* and index those responses to work papers.

View of Responsible Official. Agree. LSC OIG Auditors-in-Charge and Team Leaders will be instructed to perform reviews to ensure that responses are complete and adequately supported on the reliability of computer-processed data. Managers will be tasked to ensure that the work performed is properly annotated on the *Auditing Standards Certification and Quality Control Checklist* and properly indexed to the work papers. This process will be emphasized by December 31, 2014, in the training and by the Quality Assurance reviewer.

Evaluation of Management Comments. We accept the proposed action as meeting the intent of the recommendation.

Recommendation 3 – LSC OIG should implement appropriate controls for cross-indexing statements to supporting work papers and ensuring those statements are independently referenced before issuing a final report.

View of Responsible Official. Agree. As part of LSC OIG’s indexing and referencing training that will be conducted by December 31, 2014, emphasis will be placed on ensuring that all statements will be properly supported. Any information or statements in the report that are not indexed and referenced will be brought to the attention of the Assistant Inspector General for Audit (AIGA) for resolution.

Evaluation of Management Comments. We accept the proposed action as meeting the intent of the recommendation. While LSC OIG characterized the lack of documentation supporting its assertion and its inclusion of an assertion that was not supported by documented evidence as “unfortunate oversight,” implementing sound controls, such as thorough indexing and referencing to ensure any statement in a report is accurate and supported, will help mitigate the risk of such oversights in the future.

Recommendation 4 – LSC OIG should assess the need to notify users of the affected reports concerning whether there is insufficient evidence to support reported findings and conclusions.

View of Responsible Official. Agree. LSC OIG stated that the finding itself acknowledges that the statement in question is not part of the findings in the body of the report. Nevertheless, LSC OIG indicates that out of an abundance of caution it reviewed the work papers in question and believes it has sufficient support to justify the assertions made in the reports. LSC OIG also stated that because extensive testing was performed and traced to source documents, and is consistent with the audited financial statements, the findings and conclusions in the reports were supported. None of the findings in the reports was directly based on the use of computer-based data, according to LSC OIG, making the existence or non-existence of documentation reflecting an assessment of the reliability of computer-based data immaterial to the peer reviewer’s conclusions.

Evaluation of Management Comments. We disagree with LSC OIG's view that a lack of documentation to support a statement in an audit report is immaterial to our conclusions. While we are pleased that LSC OIG reviewed the work papers in order to conclude it has sufficient support to justify the reports' findings and conclusions, statements made by LSC OIG in any section of a report or an accompaniment to a report should be accurate and supported by audit documentation that can be made available as needed. As noted previously, *Standards* section 6.79 in fact requires auditors to prepare supporting audit documentation related to planning, conducting, and reporting for each audit.

2. Deficiency – No Summary of Annual Quality Monitoring Activities

LSC OIG did not summarize the results of its quality activities for each year in the peer review period from April 1, 2011, through March 31, 2014, as required by *Standards*. These reviews are essential to identifying potential systemic deficiencies or other areas needing improvement.

Standards require an audit organization to perform monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies and procedures. *Standards* also require an audit organization to analyze and summarize the results of its monitoring process at least annually. Our review identified evidence of quality monitoring for the period April 1, 2011, through March 31, 2014, conducted by internal and external resources; however, there were no annual summaries of the monitoring performed during this period. The annual quality monitoring summary is intended to identify systematic or repetitive issues needing improvement, along with recommendations for corrective action.

LSC OIG's audit policy explicitly states that the AIGA will assign one or more senior staff to perform internal quality control reviews. An individual was hired in June 2012, and he performed the quality control activities that were documented in 2012 and early 2014. However, he was hired as the Director of Audit Operations and, according to him, had responsibilities other than quality monitoring, which only allowed him to complete some quality assurance activities.

Without sufficient attention to analyzing and summarizing the results of its monitoring, LSC OIG may not identify systematic and repetitive issues that indicate where corrective action is required to ensure that its system of quality control is operating as intended and complies with *Standards*.

Recommendation 5 – LSC OIG should implement sufficient controls to prioritize its quality monitoring program such that it complies with ongoing monitoring and an annual summary of those quality activities per *Standards*.

View of Responsible Official. Agree. LSC OIG's Director of Audit Operations will be assigned to specifically perform semiannual reviews of work papers and develop

an annual summary to identify potential problem areas to ensure that the quality control program is operating as intended. LSC OIG will set up a schedule to ensure the reviews are completed timely. Actions will be in place by December 31, 2014.

Evaluation of Management Comments. We accept the proposed action as meeting the intent of the recommendation.

Enclosure 2 to this report includes the full response by LSC OIG to the above deficiencies.

3. Other Issue Identified – No IPA Monitoring Work Papers

In addition to reviewing its system of quality control to ensure adherence with *Standards*, we applied certain limited procedures in accordance with guidance established by CIGIE related to LSC OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. Our review of LSC OIG's monitoring of the selected IPA engagement did not affect our opinion on LSC OIG's system of quality control. In addition, it should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Standards*. The purpose of our limited procedures was to determine whether LSC OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and, accordingly, we do not express an opinion on LSC OIG's monitoring of work performed by IPAs.

The Inspector General Act of 1978, as amended, establishes that Inspectors General shall ensure that work performed by non-federal auditors is conducted in accordance with *Standards*. Since LSC OIG contracts with an IPA to serve as the principal auditor for the annual audit of LSC's financial statements, it is responsible for monitoring the IPA's work to ensure compliance with *Standards*.

When monitoring an IPA, the Government Accountability Office and the President's Council on Integrity and Efficiency's *Financial Audit Manual* (FAM) requires that auditors should determine and document whether the IPA's work is sufficient and acceptable for the auditors' use. FAM Section 650 also notes that regardless of the type of reporting or the level of review, auditors' documentation generally should contain the items listed in FAM Section 650, either electronically or in hard copy. Such documentation includes the audit strategy, memoranda documenting the entrance and exit conferences, memoranda documenting key meetings attended and discussions with the audited entity's management, results of reviews of documentation, supplemental test documentation, and a summary memorandum. It further states that auditors should retain documents in accordance with the contract or other legal requirements, but not less than five years from the report's release date.

For the selected IPA engagement of the 2013 financial statement audit, LSC OIG only had documentation of the entrance conference as evidence of its IPA oversight. The organization was not able to identify hard copy or electronic work papers to support that it monitored the IPA's audit of LSC's 2013 financial statements.¹ LSC OIG provided us with email communications between it and the IPA during LSC's 2013 financial statement audit. However, these emails only evidenced that the LSC OIG employee responsible for the oversight planned to review the IPA's work papers in accordance to FAM 650, there is no evidence that the review was conducted.

Notwithstanding, LSC OIG included the following statement in its transmittal of the 2013 financial statement audit report: "OIG reviewed the audit reports from WS+B [WithumSmith+Brown] and related audit documentation and inquired of their representatives. OIG's review disclosed no instances in which WS+B did not comply, in all material respects, with *Government Auditing Standards*." Without evidence of proper oversight, LSC OIG has no support for its statement and has limited assurance that the IPA performed its work in accordance with *Standards*.

Further, based on conversations with LSC OIG and review of available documentation, there is no evidence of supervisory review of monitoring activities performed by the employee responsible for the IPA monitoring. The TeamMate project file for IPA monitoring was created, but the 2012 monitoring work papers were copied into the 2013 project with no apparent updates. More active supervisory review could have identified that there were no work papers in TeamMate related to LSC's 2013 financial statement audit.

Recommendation 6 – LSC OIG should ensure those responsible for IPA monitoring document their oversight in the work paper system of record and require supervisory review of work papers supporting the monitoring throughout the oversight period.

View of Responsible Official. Agree. In the future, the AIGA will ensure that work papers are properly prepared in TeamMate and that adequate supervisory review takes place. In addition, LSC OIG will build an annual quality control review to ensure that the work is done properly, documented, and the work papers are safeguarded. Actions will be in place by December 31, 2014.

As additional context, LSC OIG indicated that it is true that as a result of management and employee turnover prior to and during the peer review, work papers for the IPA monitoring project were misplaced. LSC OIG states that this is not to say, however, that there is no evidence that the work in question was performed. In an attempt to reconstruct the work papers, LSC OIG found an extensive number of emails shared among the LSC OIG auditor, team leader, LSC management, and the IPA that demonstrated communication between the parties and that information was shared and analyzed. LSC OIG cites relevant evidence such as the transmittal letter that accompanied the audit report, which indicated LSC OIG reviewed the IPA work

¹ In contrast, LSC OIG had a full set of work papers documenting its oversight of the 2012 financial statement audit.

papers, as well as an internal LSC OIG calendar on which the employee charged with performing the review marked himself out of the office with the notation “at [IPA] Office Silver Springs [sic].” Further, LSC OIG suggests the possibility that the peer reviewer could have interviewed the IPA or set up brief interviews with former LSC OIG staff to obtain evidence of oversight. Indeed, LSC OIG provided an email from the IPA asserting that the LSC OIG employee reviewed its work papers, along with another email from the LSC OIG employee requesting copies of certain IPA work papers.

LSC OIG firmly believes adequate oversight was performed at the time of the review and that the current unavailability of the formal work papers does nothing to undermine that work. Nevertheless, LSC OIG acknowledges the desirability of maintaining such work papers in connection with IPA monitoring and will take appropriate steps to ensure that work papers are adequately maintained in connection with future reviews.

Evaluation of Management Comments. We accept the proposed action as meeting the intent of the recommendation. However, we reiterate that FAM 650 requires retention for at least five years from the report’s release date of certain minimum evidence that the IPA’s work was monitored. Such evidence would include a memorandum summarizing whether the one responsible for oversight concludes the IPA’s work was performed in accordance with *Standards*. A memorandum supporting the conclusion in LSC OIG’s transmittal letter was not provided, if it exists. Further, testimonial evidence obtained from the IPA during our peer review and well after the 2013 financial statement audit was completed also does not serve as support for LSC OIG’s conclusion that the IPA complied in all material respects with *Standards*. Evidence of the work performed and the conclusions reached should comply with FAM 650 and be properly retained and safeguarded by LSC OIG. We saw no need to contact the IPA for documentation that LSC OIG is required to maintain as support that the IPA conducted its work in accordance with *Standards*.

Recommendation 7 – To comply with the Inspector General Act of 1978, as amended, LSC OIG should perform procedures to assure itself that the IPA work performed for the 2013 financial statement audit was in compliance with *Standards*.

View of Responsible Official. Agree. LSC OIG is in the process of performing the necessary reviews from available information to ensure that the IPA work was done in accordance with *Standards*. LSC OIG plans to complete this by the end of December 2014. LSC OIG stated that it cannot stress strongly enough that the absence of documentation does not imply a failure to monitor the IPA’s work, and indeed, what evidence exists points to the fact that LSC OIG did in fact perform the required monitoring.

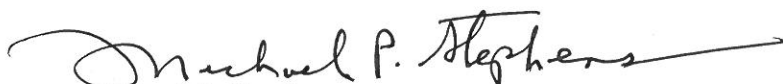
As additional context, while LSC OIG will implement all recommendations in response to this finding because the practices recommended are sound, it notes that Recommendation 7 is not addressed to the condition found. LSC OIG stated that the

recommendation presumes the absence of formal work papers could only occur if LSC OIG did not “perform procedures to assure itself that the IPA work performed for the 2013 financial statement audit was in compliance with *Standards*,” a presumption LSC OIG does not share.

Evaluation of Management Comments. We accept the proposed action as meeting the intent of the recommendation. Further, we acknowledge that LSC OIG was able to collect evidence after the fact that some limited monitoring of the IPA was performed. However, support for LSC OIG’s conclusion that the IPA conducted its work in compliance with *Standards* was not provided, if it exists. Evidence of the work performed and conclusions on whether the IPA complied with *Standards* should be properly documented, retained, and safeguarded in accordance with FAM 650.

Should you have any questions, please feel free to contact my office.

Sincerely,

A handwritten signature in black ink that reads "Michael P. Stephens". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

Michael P. Stephens
Acting Inspector General

Enclosure 1 – Scope and Methodology

Enclosure 2 – LSC OIG’s Responses

Enclosure 1

SCOPE AND METHODOLOGY

We tested compliance with the LSC OIG audit organization's system of quality control to the extent we considered appropriate using the *Guide for Conducting External Peer Reviews of the Audit Operations of Federal Offices of Inspector General*, which was issued by CIGIE (updated November 2012). LSC OIG issued 22 audit and attestation reports during the peer review period from April 1, 2011, through March 31, 2014. Based on our risk assessment, we reviewed three audit and attestation reports issued from March 28, 2013, through March 31, 2014, and semiannual reporting periods ending March 31, 2014. We also reviewed the internal quality reviews performed by LSC OIG. We conducted our fieldwork during the period of April 1, 2014, through June 30, 2014.

In addition, we reviewed LSC OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditors from April 1, 2013, through March 31, 2014. During this period, LSC OIG contracted for one audit of its agency's fiscal year 2013 financial statement.

We visited the Washington, DC, office of LSC OIG. We selected the following audits and attestation engagements for review.

Reviewed Engagements Performed by LSC OIG

Report Title	Engagement Type	Report Date	Report Number
<i>Selected Internal Controls: Land of Lincoln Legal Assistance Foundation</i>	Audit	03/24/2014	AU-14-01
<i>Selected Internal Controls: Central Virginia Legal Aid Society</i>	Audit	09/30/2013	AU-13-07
<i>Examination of Expenditures Incurred for the Performance of Technology Improvement Grants: Idaho Legal Aid Services</i>	Attestation	03/28/2013	AU-13-04

Reviewed Monitoring Files of LSC OIG for Contracted Engagements

Report Title	Report Date
<i>Legal Services Corporation Financial Statements September 30, 2013 and 2012</i>	12/19/2013

Enclosure 2

LSC OIG's MANAGEMENT COMMENTS²



Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660 (p) 202.337.6616 (f)
www.oig.lsc.gov

August 13, 2014

Michael P. Stephens
Acting Inspector General
Federal Housing Finance Administration
400 7th Street S.W., Room 3129
Washington, DC 20024

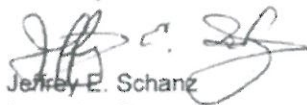
Dear Mr. Stephens:

Thank you and your staff for conducting the peer review of the Legal Services Corporation, Office of Inspector General's audit program. We appreciate the team's comments and the professional and thoughtful manner in which they conducted themselves during the review.

We are mindful that any organization's policies, procedures, and practices can be improved and appreciate your identifying areas for improvement in our operations. As you will see from our detailed responses (enclosed), we are committed to implementing the recommendations in your report.

I appreciate the opportunity to comment on the draft peer review report and look forward to receiving the final report. Again, thank you and your team for your efforts and courtesies in conducting this peer review.

Sincerely,


Jeffrey E. Schanz
Inspector General

Enclosure



² We masked personally identifiable information contained in the attachments to LSC OIG's responses.

**Responses of the Legal Services Corporation
Office of Inspector General**

Deficiency 1. – Reports Included Unsupported Statements About Assessing the Reliability of Computer-Processed Data

We concur in principle with the finding. The finding discusses the importance of assessing computer-based data, but it is in substance a finding about the absence of documentation reflecting the OIG's assessment of that data: "Our system review, however, did not identify any evidence that such an assessment was conducted to validate these statements." It is true that the work papers for the projects reviewed by the peer review team did not specifically contain an analysis on the reliability of computer based data. While we did not document this assertion in a separate work paper, we did conduct extensive testing on grantee transactions and traced the information to source documentation that would have supported the assertion. We also reviewed total grant amounts to validate samples. All of this work implies an ongoing assessment of the reliability of computer-based data to the extent that data was implicated in the review. We do not believe the risks identified in the finding are present because the assessment was performed, however informally, but we acknowledge that accepted auditing standards require that work to be documented, which it was not.

In order to appreciate the weight of this peer review finding, it is important to understand that the audits we perform are of selected internal controls and do not encompass all activities of a grantee. The grantees we review tend to be smaller operations with limited funding. All of the grantee audits reviewed by the peer review team received unqualified audit opinions from independent CPA firms for the years reviewed by the OIG. The IPAs also found that internal controls were working and that the grantee was in compliance with laws and regulations. Consequently, accurate findings in the OIG's internal control audits simply did not require significant reliance on computer based data as might be the case in performance or financial audits at differently situated auditees.

The OIG agrees that it should have either documented its assessment or removed references to that assessment in that prefatory material. It does not believe that this unfortunate oversight had any effect on the substantive accuracy or supportability of its work. Indeed, the finding concedes that the statements at issue were "not part of the findings in the body of the report."

While the OIG will implement all recommendations in response to this finding because the practices recommended are sound, it notes that Recommendations 1 and 4 are not addressed to the actual condition at issue.

Recommendation 1 – LSC OIG should train its staff on assessing the reliability of

computer-processed data reliability.

Response - Agree. This recommendation is not addressed to the actual condition identified in the peer review report because it presumes that no assessment was done whereas the finding speaks to documentation of an assessment. Nevertheless, we will conduct training with the staff to ensure that the reliability of computer processed data is properly analyzed and documented to support the assertion. We will conduct this training for all audit staff by December 2014.

Recommendation 2 – LSC OIG should implement sufficient controls so its personnel respond to questions about the reliability of computer-processed data on the *Auditing Standards Certification and Quality Control Checklist* and index those responses to work papers.

Response - Agree. Auditors-in-Charge and Team Leaders will be instructed to perform reviews to ensure that responses are complete and adequately supported on the reliability of computer-processed data. Managers will be tasked to ensure that the work performed is properly annotated on the *Auditing Standards Certification and Quality Control Checklist* and properly indexed to the workpapers. This process will be emphasized in the training and by the Quality Assurance reviewer.

Recommendation 3 – LSC OIG should implement appropriate controls for cross-indexing statements to supporting work papers and ensuring those statements are independently referenced before issuing a final report.

Response – Agree. As part of the indexing and referencing training, emphasis will be placed on ensuring that all statements will be properly supported. Any information or statements in the report that are not indexed and referenced will be brought to the attention of the AIGA for resolution.

Recommendation 4 – LSC OIG should assess the need to notify users of the affected reports concerning whether there is insufficient evidence to support reported findings and conclusions.

Response – Agree. We note that the finding itself acknowledges that the statement in question is not part of the findings in the body of the audit report. Nevertheless, out of an abundance of caution, we have reviewed the workpapers in question and believe we have sufficient support to justify the assertions made in the reports. As noted above, because extensive testing was performed and traced to source documents, and are consistent with the audited financial statements, the reportable findings and conclusions

in the reports were supported. None of the findings in the reports were directly based on the use of computer based data, making the existence or non-existence of documentation reflecting an assessment of the reliability of computer-based data immaterial to the OIG's conclusions.

Deficiency 2 - No Summary of Annual Quality Monitoring Activities

We concur with the finding. While intermittent quality assurance testing was performed, annual quality assurance summaries were not developed. During the period under review, significant time and effort was spent by the auditors-in-charge, team leaders and the AIGA to review workpapers for completeness and accuracy. This led to delays in completing audits and significant amounts of rework to ensure that workpapers met audit standards. Staff turnover and leadership changes also contributed to delays in completing workpapers and projects. As a result, the timing of quality assurance reviews were delayed waiting for audits to be completed.

Recommendation 5 - LSC OIG should implement sufficient controls to prioritize its quality monitoring program such that it complies with ongoing monitoring and an annual summary of those quality activities per *Standards*.

Response - Agree. The Director of Audit Operations will be assigned to specifically perform semi-annual reviews of workpapers and develop an annual summary to identify potential problem areas to ensure that the quality control program is operating as intended. A schedule will be set up to ensure that the reviews are completed timely.

Deficiency 3. - Other Issue Identified – No IPA Monitoring Work Papers

While the OIG agrees with preparing work papers to document IPA monitoring and has itself in the past prepared such work papers, the OIG notes that there is ample evidence of its review of the audit in question. As a preliminary matter, the OIG notes that the review itself was not an audit, and consequently the work paper requirements that apply to audits did not apply to the review. This understanding is consistent with the checklist used in the peer review, which states, "IPA monitoring conducted by an audit organization is an activity that is not an audit and accordingly GAGAS does not apply to the activity." It is true that as a result of management and employee turnover prior to and during the peer review, work papers for this project were misplaced. This is not to say, however, that there is no evidence the work in question was performed. In an attempt to reconstruct the work papers, we found an extensive number of emails shared among the OIG auditor, OIG team leader, LSC management and the IPA that demonstrated communication between the parties and that information was shared and analyzed. Relevant evidence includes, for example, the OIG's transmittal letter that

ENCLOSURE

accompanied the audit report and stated: "OIG reviewed the audit reports from WS+B and related audit documentation and inquired of their representatives. OIG's review disclosed no instances in which WS+B did not comply, in all material respects, with *Government Auditing Standards*." It also includes an internal OIG calendar on which the employee charged with performing the reviewed marked himself out of the office with the notation, "at [IPA] Office Silver Springs."

If this evidence were not sufficient, it would have been possible to interview the IPA to determine whether the OIG followed up on the statements in the emails listed above or to set up brief interviews with the OIG's former staff members responsible for the review. We are attaching an email from David Karakashian, an auditor with the IPA who has personal knowledge of the OIG's monitoring activities in connection with the audit in question. Mr. Karakashian reports that the OIG employee charged with review of the IPA's work papers "visited [the IPA's] office on December 16, 2013, to review the workpapers for the FY 2013 LSC Financial Statement Audit. [The OIG employee in question] was provided access to [the IPA's] electronic workpapers, and [the IPA] walked him through the audit software and the layout of the workpapers." Mr. Kardashian also forwarded a December 17, 2014 email from the OIG employee charged with reviewing the IPA's work following up on his December 16, 2013, review of the IPA's work papers. That email sought specified work papers by index number "in connection with the OIG employee's review of [the IPA's] audit work papers, as part of the requirements of FAM 650." The OIG believes these materials sufficiently evidence its review of the IPA's work papers to support the conclusion that it performed the required oversight of the IPA audit.

We firmly believe adequate oversight was performed by the OIG at the time of the review and that the current unavailability of formal work papers does nothing to undermine that work. Nevertheless, we acknowledge the desirability of maintaining such work papers in connection with IPA Monitoring, and we will take appropriate steps to ensure that work papers are adequately maintained in connection with future reviews.

While the OIG will implement all recommendations in response to this finding because the practices recommended are sound, it notes that Recommendation 7 is not addressed to the condition found. It presumes that the absence of formal work papers could only occur if the OIG did not "perform procedures to assure itself that the IPA work performed for the 2013 financial statement audit was in compliance with Standards," a presumption that the OIG does not share.

ENCLOSURE

Recommendation 6 - LSC OIG should ensure those responsible for IPA monitoring document their oversight in the work paper system of record and require supervisory review of work papers supporting the monitoring throughout the oversight period.

Response – Agree. In the future, the AIGA will ensure that work papers are properly prepared in Teammate and that adequate supervisory review takes place. In addition, we will build in an annual quality control review to ensure that the work is done properly, documented and the workpapers are safeguarded.

Recommendation 7 – To comply with the Inspector General Act of 1978, as amended, LSC OIG should perform procedures to assure itself that the IPA work performed for the 2013 financial statement audit was in compliance with *Standards*.

Response – Agree. We are in the process of performing the necessary reviews from available information to ensure that the IPAs work was done in accordance with *Standards*. We plan to complete this by the end of December 2014. The OIG cannot stress strongly enough that the absence of documentation does not imply a failure to monitor the IPA's work, and indeed, what evidence exists points to the fact that the OIG did in fact perform the required monitoring.

ATTACHMENTS

From: [REDACTED]
Sent: Thursday, August 07, 2014 10:23 AM
To: [REDACTED]

Cc: _____

Subject: RE: Follow-up on our Peer Review

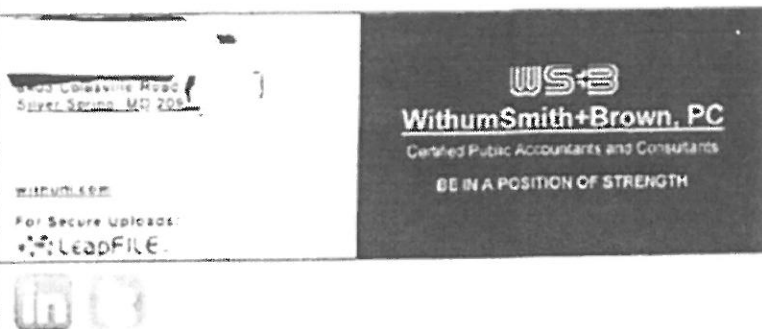
Hi _____

This email is to confirm that _____ visited our office on December 16, 2013, to review the workpapers for the FY 2013 LSC Financial Statement Audit.

_____ was provided access to our electronic workpapers, and we walked him through the audit software and the layout of the workpapers.

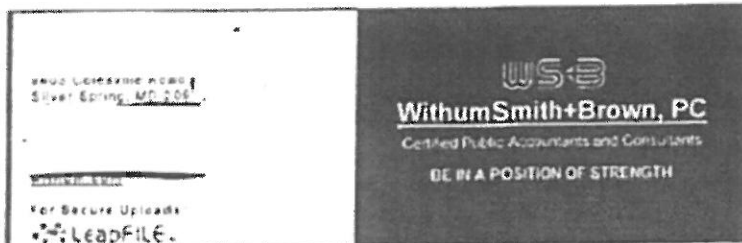
On December 17, _____ emailed WS+B requesting copies of certain workpapers he reviewed, which we provided to him electronically later on December 17th, and also on December 20, 2013, for the items that were not yet finalized on the 17th.

Please let us know if you need any additional information. Thanks.



To ensure compliance with U.S. Treasury rules, unless expressly stated otherwise, any U.S. tax advice contained in this communication (including attachments) is not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code. This email transmission, and any documents, files or previous email messages attached to it may contain confidential information that is legally privileged. If you are not the intended recipient or a person responsible for delivering it to the intended recipient, you are hereby notified that any disclosure, copying, distribution, or use of any of the information contained in or attached to this transmission is STRICTLY PROHIBITED. If you have received this transmission in error, please immediately notify the sender. Please destroy the original transmission and its attachments without reading or saving it in any manner. Visit our website at... www.withum.com

From
Sent: Thursday, August 07, 2014 2:19 PM
To:
Subject: rrv: electronic Formats of Wkps re: FAM 650 LSC Corp Audit 093013





From: _____
Sent: Tuesday, December 17, 2013 5:09 PM
To: _____
Cc: _____
Subject: RE: Electronic Formats of Wkps re: FAM 650 LSC Corp Audit 093013

See attached.

Thanks,

From: _____
Sent: Tuesday, December 17, 2013 2:17 PM
To: _____
Cc: _____
Subject: Electronic Formats of Wkps re: FAM 650 LSC Corp Audit 093013

In connection with my review of your audit work papers, as part of the requirements of FAM 650, please provide us with the Word or PDF formats of the following working papers:

1. Audit Planning

2100.05	AUD 101	Overall Audit Program LSC	
2100.10	KBA 101	Overall Audit Strategy	
2100.15	KBA 102	Info for Substantive Analytical Procedures	
2100.20	KBA 103	Significant Matters	
2100.25	KBA 104	Eval and Comm – Internal Control Deficiencies	
2100.30	KBA 105	Summary of Misstatement and Omitted Disclosures	
2100.32	KBA 106	Review of Significant Estimates	

2. Risk Assessment

2500		Assessing the Risk of Materiality Misstatement	
2500.01		Team Discussion	
2500.10	KBA 502	Summary of Risk Assessments	

3. Materiality Computation

2300		Understanding the Entity and Its Environment	
2300.01	KBA 301	Materiality Tolerable Misstatement Thresholds	
2300.05	AID 301	Analytical Procedures	

4. Evaluation of Internal Controls

2400		Evaluating the Design of Internal Controls	
2400.01	KBA 401	Understanding Entity-Level Controls	

2400.15		Internal Control Review	
2400.16		Accounting Manual Working Auditor	

5. Test of Internal Controls

2700		Tests of Internal Controls	
2700.10		Disbursement Control Testing	
2700.30		Review of Non Standard Journal Entries	
2700.40		Testing of Non Standard Journal Entries	

6. Others, Evaluation, Concluding and Reporting

2800		Other Substantive Procedures	
2900.20	KBA 902	Audit Review and Approval Form	
2800W-20		Test of Compliance – Funds Programming	

7. Supervision Review and Approval

1025.01		Scanned XCM Routing Sheet	WS+B promised to provide on Friday, Dec 20, 2013
---------	--	---------------------------	--

I went through these work papers on your computer, while I was at your office yesterday. Please let me know, if you have questions. Thanks and best regards.

Office of Inspector General | Legal Services Corporation
3333 K Street, NW
Washington, DC 20007



To ensure compliance with U.S. Treasury rules, unless expressly stated otherwise, any U.S. tax advice contained in this communication (including attachments) is not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code. This email transmission, and any documents, files or previous email messages attached to it may contain confidential information that is legally privileged. If you are not the intended recipient or a person responsible for delivering it to the intended recipient, you are hereby notified that any disclosure, copying, distribution, or use of any of the information contained in or attached to this transmission is **STRICTLY PROHIBITED**. If you have received this transmission in error, please immediately notify the sender. Please destroy the original transmission and its attachments without reading or saving it in any manner. Visit our website at... www.withum.com